

## Edmonton starting to fire all fossil-fuelled cylinders

**FEATURE | From housing to industrial and mega petroleum investments, capital city is leading Alberta's recovery**

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Sales of condo apartments are up 16 per cent in Edmonton this year compared to 2017, commercial real estate sales are running at \$100 million per month, a flashy new museum is set to open, a multibillion-dollar petro project is highballing ahead and a light rapid transit line extension is being built to help carry the capital's recovery.

Four years after a slump in oil prices triggered an Alberta downturn, Edmonton could be the flag-bearer for its turnaround.

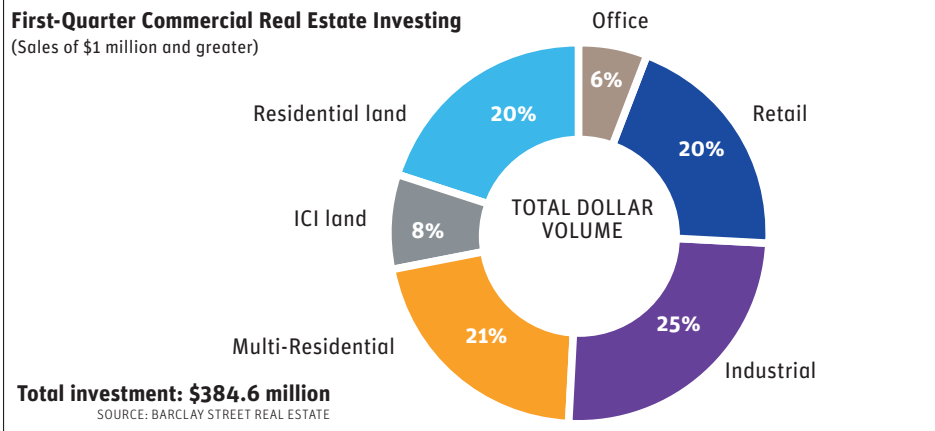
A cue is in the multi-family market, which has struggled to gain traction amidst a condo oversupply and slower sales. Demand was recovering last year, but the mortgage stress test and higher interest rates cooled first quarter sales, according to research firm **Urban Analytics**.

Despite these challenges, year-over-year sales of multi-family homes increased 16 per cent, a sign Urban Analytics sees as increasing confidence among buyers in the housing market and Edmonton's economy.

It doesn't hurt that some analysts, including the **Bank of America**, are predicting that Brent oil prices, an industry standard, could be flirting with US\$100 per barrel as early as next year. Global oil prices have crested above US\$70 a barrel this year so far.

The confidence is manifested north of Edmonton as construction of a \$3.5 billion petro project

**First-Quarter Commercial Real Estate Investing**  
(Sales of \$1 million and greater)



hit high gear this year.

**Inter Pipeline's** Heartland petrochemical complex, which will turn 525,000 tonnes of propane per year into polypropylene pellets, is aiming to complete by 2021.

The project is benefiting from a current lack of major project development in Alberta, which results in a favourable engineering, procurement and construction environment, including availability of skilled labour, Inter Pipeline said.

Civil construction and fabrication activities are ongoing, and the installation of support structures and foundation work has begun.

Major contractors include **Honeywell, Fluor, Kiewit Construction Services, Grace UNIPOL** and **Linde Engineering**.

Approximately \$125 million of capital was invested in the project during the first quarter of 2018, with a total 2018 capital plan of approximately \$700 million.

### Investment

The confidence is also seen in commercial real estate investments. In the first quarter, sales of commercial real estate – for deals worth \$1 million or more – jumped 32 per cent from the same period in 2017, according to **Barclay Street Real Estate**.

The \$375 million in total dollar volume was down from a year earlier, but the first quarter of 2017 included the “surprise” \$80 million sale of four **Dream Office Real Estate Investment Trust** office towers, Barclay noted.

The big mover this year is the industrial sector, which accounted for \$93 million in sales volume in the first quarter, up 89 per cent from a year ago. Sales of industrial properties doubled.

The performance came as no surprise to **Avison Young**, which noted Edmonton's surging economy blew by projections last year

A new player could become a force in the industrial sector this year, Avison Young said, as cannabis producers are expected to lease or buy two million square feet of industrial space and produce more than 200,000 kilograms of marijuana annually.

**Aurora Cannabis** is already completing its 800,000-square-foot flagship manufacturing facility near Edmonton International Airport, expected to be the largest marijuana production facility in Western Canada.

According to Barclay, the average price per square foot for Edmonton industrial space ranges from \$146 to \$176 per square foot, depending on the zoning.

in the first quarter of 2017. There was also a sharp increase in transactions, Barclay reports, with 17 land sales as of March 31, compared to just five at the same point in 2017. While the average price per acre is around \$350,000, **GC Edmonton One Inc.** paid more than \$10 million this year for a 0.95-acre site in downtown Edmonton.

### Retail and office

Investments in retail this year could not keep pace with the performance seen in early in 2017, with the dollar volume of retail real estate deals falling by half to \$75 million. Buyers were also hunting for bargains, which dropped the average cost per square foot to \$350, down from \$400 per square foot in the first quarter of 2017.

As in Calgary, Edmonton's office sector continues to be burdened by an oversupply of prime space and slack demand. In the first quarter, just eight office buildings sold in Edmonton with a total dollar volume of \$21 million. This was down from \$107 million in the first three months of last year.

Citywide office vacancy rates declined 0.6 per cent in the quarter to 15 per cent.

Limited speculative construction, repurposing or demolition of dated office buildings, and an improved municipal economy are expected to push the office vacancy rate lower, Avison Young suggests.

### Big projects

The opening this year of the multimillion-dollar **Royal Alberta Museum** and the ongoing extension of light rapid transit are concrete evidence of Edmonton's growth, but there are also some new projects on the drawing board. The biggest of these is the proposal to redevelop the old Edmonton Exhibition Lands and Northlands Coliseum site into, according to some plans, a mixed-use urban wonderland.

“We just got a lot of great ideas,” said **Lyall Brenneis**, manager of the Edmonton Exhibition Lands initiative. ■

### Multi-family rentals

While the condominium market improves, investors have been scouting Edmonton's multi-family rental market. Most are targeting small-to-medium-sized properties of 25 units or less. This is reflected in an 8 per cent increase in sales in the first quarter of this year, compared to 2017, but a drop in dollar volume. Total sales were worth \$79 million so far in 2018, down from \$279 million in the first quarter of last year.

The average price per door of apartment buildings this year in Edmonton is \$140,000, which is back to the post-recession price of 2014.

Residential developers are also buying up residential land, a further signal of confidence. Sales of residential land topped \$75 million this year, nearly triple the volume



**Rendering of Inter Pipeline's Heartland petrochemical complex: \$3.5 billion megaproject goes online in 2021.**

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with GDP growth of 5.7 per cent. In 2017, it added, Edmonton generated 11,000 new jobs.

Industrial vacancy rates peaked at 6.8 per cent in mid-2017 and had dropped to 6.4 per cent as of the first quarter of 2018, the commercial agency reported.